

Message Text

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ORIGIN EA-09

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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
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FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA PRIORITY

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E.O. 11652: GDS

TAGS: EAID, ID

SUBJECT: WORLD BANK'S 1977 INDONESIAN REPORT

REFS: A. JAKARTA 3151 B. JAKARTA 2817

1. IN USING BANK AND EMBASSY REPORTS AS BACKGROUND DOCUMENTS FOR OUR IGGI-20 PREPARATIONS, WE WOULD APPRECIATE SOME ADDITIONAL EMBASSY COMMENTS.

2. EMBASSY'S 3305 MOST TIMELY. ASSUME NO OBJECTION IF IN PUBLIC REMARKS USG OFFICIALS PREFACE THEIR ALLUSIONS TO INDONESIA'S LESS FAVORABLE OIL EARNINGS FORECAST BY SIMPLE STATEMENT THAT COMMENTS ARE BASED ON SOURCE MATERIAL BELIEVED TO BE VERY RELIABLE.

3. ONE IMPLICATION OF 3305 IS THAT GOI MUST MOVE QUICKLY
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TO ESTABLISH PRIORITIES FOR INVESTMENT OF FOREIGN EXCHANGE EARNED FROM FAST DEPLETING OIL RESOURCES. GOI MUST ALSO ENSURE THAT OTHER MINERAL RESOURCES CAPABLE OF EARNING FOREIGN EXCHANGE (COAL, COPPER, BAUXITE, NICKEL) ARE DEVELOPED AS QUICKLY AS POSSIBLE TO TAKE UP EARLIER THAN FORECAST DROP IN OIL EARNINGS. THIS MAY REQUIRE SPECIAL ATTENTION TO REMOVE DOUBTS NOW HELD BY SHELL, FREEPORT,

ALCOA, AND USSTEEL/NEWMONT ABOUT COMMITTING HUNDREDS OF

MILLIONS OF DOLLARS IN EACH CASE. DOES EMBASSY HAVE ANY INDICATIONS THAT GOI HAS DRAWN SAME CONCLUSIONS FROM DATA IN 3305 AND IS BEGINNING TO DEVELOP NEW POLICIES BASED ON THESE CONCLUSIONS?

4. BANK'S REPORT NOTES (PARA 3.11) THAT "MORE PURPOSE-FUL EFFORTS ARE NEED TO PROLONG AND ACCELERATE EXPORT GROWTH" AND THAT "A DEEPER INVESTIGATION OF LIKELY EXPORT PERFORMANCE ... MUST START IMMEDIATELY". BANK SUGGESTS THAT GOI IS NOT TOO FAR ALONG IN ITS THINKING ON THESE "CRUCIAL POLICY NEEDS". IS THIS A FAIR STATEMENT?

5. PARA 7 TO ANNEX 1 OF BANK'S LOAN PAPER OF JAN 7, 1977 ON 15 MILLION DOLS SECOND LOAN TO P.T. PRIVATE DEVELOPMENT FINANCE COMPANY REFERS TO AN ESSENTIALLY THREE-PRONGED GOI INDUSTRIALIZATION STRATEGY WHICH BANK HAS DIVINED FROM GOI ACTIONS BUT APPARENTLY NOT FROM ANY GOI POLICY STATEMENTS: FIRST, COMPLETION OF ONGOING INVESTMENTS IN LARGE PROJECTS WHICH PROCESS RAW MINERAL RESOURCES OR WHICH ENCOURAGE DOMESTIC PRODUCTION OF INTERMEDIATE GOODS (STEEL, CEMENT, FERTILIZER, PULP/PAPER); SECOND, PROMOTION OF MEDIUM-SIZED PROJECTS WHICH AIM AT DEVELOPING NON-TRADITIONAL EXPORT BASE AND ALLOW FOR MORE INTEGRATION IN EXISTING INDUSTRIES; AND THIRD, AS RESOURCES BECOME AVAILABLE, INCREASING EMPHASIS ON SMALL INDUSTRIES WHICH MAXIMIZE JOBS, AND DISPERSE INVESTMENT

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AND PRODUCTION CLOSER TO RAW MATERIAL SOURCES AND MARKETS. IS THIS A FAIR STATEMENT? HAS GOI ARTICULATED AN INDUSTRIALIZATION STRATEGY? IS IT PREPARED TO SINGLE OUT SPECIFIC FACTORIES IT WISHES TO SEE BUILT AND TO TAKE INITIATIVE TO FIND AND ATTRACT FOREIGN INVESTOR AS APPROPRIATE?

6. PARA 3 REFTEL A REFERS TO OVERALL BALANCE OF PAYMENTS SURPLUS IN FY 1976/77 OF AROUND 800 MILLION DOLS. BANK REPORT TABLE 1 GIVES A NOVEMBER ESTIMATE OF 655 MILLION DOLS. DOES EMBASSY/USAID HAVE COMMENT?
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